

OPERATIONAL PROCEDURES	Procedure No. <b>220.20 AUDIT/ENGAGEMENT PLANNING</b> <b>LAST REVISED: AUGUST 31, 2010</b>	<b>PAGE 1 OF 3</b>
---------------------------	--	--------------------

## AUDIT/ENGAGEMENT PLANNING

### DEFINITION –

**AUDIT/ENGAGEMENT PLANNING (EP)** – Strategic process that considers all known relevant factors by which a plan of action can be constructed

EP is a process which begins as a result of the approved Annual Audit Plan, re-initiates at the announcement of a project and considers various inputs, such as entity structure, function, financial and/or operational performance, environment, laws, regulations, resources (including audit staff assignments), objectives, risks, and controls. Decisions are then made that impact the audit/engagement objectives and specific procedures to gather, analyze, and evaluate information to render conclusions, identify findings, propose recommendations, and report upon.

### PURPOSE –

- Systematically and strategically identifies:
  - Key elements (objectives);
  - Specific procedures to address objectives and support the documented conclusions;
- Acts as an adjustable blueprint that serves as a point of reference and documents decisions and adjustments made throughout the engagement; and
- Provides a basis for adequate control and review (engagement and quality).

### BACKGROUND –

Each project begins with EP, which includes; preliminary gathering and analysis of information on the 'entity', process, function, or activity which is to be audited, reviewed, or examined. The goal is to obtain an understanding of the 'auditee' as it relates to the reason for the engagement (overall engagement objectives). This process also involves identifying specific and measureable criteria, where required. Throughout the EP phase, Engagement Risk is identified and Audit Risk (AR) is defined with the goal to mitigate the residual AR to an acceptable level.

Per [GAGAS 7.05](#), *"Audit Risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud."*

NOTE: CAATs are used in analysis where appropriate.

### APPROACH AND METHODOLOGY -

It is necessary to mention that the EP process is interactive and dynamic, rather than linear or sequential. It is commonly modified throughout the project as information and results are obtained, assessed, and conclusions are rendered. Auditor judgment and audit/engagement team communication are critical elements in the overall project. For instance, information gathered may expand the scope, which will affect the program, procedures, and resources (staff required, budget, etc.), or it may be decided to refine the scope and address additional items under a separate project or follow-up.

<b>OPERATIONAL PROCEDURES</b>	Procedure No. <b>220.20 AUDIT/ENGAGEMENT PLANNING</b> <b>LAST REVISED: <i>AUGUST 31, 2010</i></b>	<b>PAGE 2 OF 3</b>
-----------------------------------	---	--------------------

---

## **AUDIT TEAM MEETINGS**

The audit/engagement team is assigned by the CA and the Audit Manager, which involves the Lead Auditor and other Staff Auditors as necessary.

The team assembles for initial EP and strategy meetings (sometimes comprised of “Brainstorming Sessions”) which involve preliminary discussions of the key components of risk (including fraud, waste and/or abuse), objectives and scope. The results of Team Meetings yield identification of the following:

- Engagement Risk, Audit Risk, and approach to ARA;  
(See [PROCEDURE 220.30](#))
- General Control Structure or Approach to ICA;
- Audit/Engagement Objective:  
The overall objective is found in the Annual Audit Plan and is general in nature. This allows flexibility in scope and refinement based on results of preliminary and interim assessments;
- Audit/Engagement Cycles/Functions:  
Based on the audit/engagement, the approach and methodology are decided and Audit/Engagement Cycles may be identified. This creates a map for developing the Audit/Engagement Program and serves as a template for creating the project in the electronic workpapers;
- Audit/Engagement Specific Objectives:  
The Team Meetings allow for more comprehensive identification of engagement objectives related to cycles, functions, and/or areas as identified above; and
- Audit/Engagement Scope.  
(See [PROCEDURE 230.00](#))

---

## **PRELIMINARY SURVEY AND ANALYSIS**

Part of the EP process involves obtaining and analyzing relevant information on the entity, process, function or activity (using CAATs where appropriate). Common sources and areas to consider are:

- Professional Standards (GAGAS, IIA, AICPA, etc.);
- Applicable Federal, State, or Local laws and/or regulations;
- City Code of Ordinances;
- Administrative Policies, Procedures and Executive Orders;
- Organizational Charts/Job Descriptions;
- Existing Flow Charts or Documented Business and Information Processes;
- Nature and Profile of the Program/Activity and User Needs ([GAGAS 7.13 – 7.15](#))
- Financial, Statistical Data, Systems, including those of relevant third parties;
- Prior Audits; and
- Correspondence.

The results of this process become an integral part of Team Meetings which further refine the strategy for the engagement. These elements are also inputs to the ARA and ICA, because they reveal risks and related controls specific to the activity or audit/engagement.

OPERATIONAL PROCEDURES	Procedure No. <b>220.20 AUDIT/ENGAGEMENT PLANNING</b> LAST REVISED: <i>AUGUST 31, 2010</i>	PAGE 3 OF 3
---------------------------	--	-------------

---

## DOCUMENTING RESULTS AND OUTPUT OF EP –

The EP documentation developed by the Audit Team is comprised of (but not limited to):

- Planning Document ([Checklist](#) or documented steps for which engagement decisions were made and which may or may not include a narrative);
- Audit/Engagement Notification Letter (See [Procedure 260.00](#));
- Information Request (See [Procedure 260.00](#));
- Entrance Conference Agenda & Notes (See [Procedure 260.00](#));
- ARA and ICA (See [Procedures 220.30](#) and [220.40](#) respectively); and
- Audit/Engagement Objectives, Scope, and Program (See [Procedure 230.00](#)).

The importance of the EP process **cannot** be overstated. It involves obtaining and analyzing existing information for the purpose of developing specific procedures that address relevant objectives within a defined scope while reducing the AR to an tolerable level. Having stated this, the most critical ‘output’ of the EP process is the Audit/Engagement Program (See [Procedure 230.00](#)) and is the blueprint of the steps to be executed. The documented objectives of the audit/engagement are part of the Audit/Engagement Program and are linked to specific steps. This is a critical element that joins:

Risks\* → Audit/Engagement Objectives → Audit/Engagement Program Procedures/Steps

The planning process involves making decisions that affect actions throughout the rest of the project or engagement. This emphasizes the need for involvement by all members of the audit/engagement team. While the client/auditee does not attend team planning meetings, their input is considered and is sometimes the catalyst for the audit/engagement. The Audit Manager provides review and approval of decisions made throughout planning and performing the engagement, including the Planning Documents and Audit/Engagement Program.

Planning, RM, ERA, ARA, and ICA are all interactive. EP is dependent upon assessments of Risk and the associated Internal Controls. For more information on:

- Risk, RM, ERA, See [Procedure 220.30](#)
- ICA, See [Procedure 220.40](#)

\* Significant Unmitigated Risks after considering Internal Controls

---